

Partnership Project Update

REPORT TO THE GOVERNOR *AND THE* GENERAL ASSEMBLY

December

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REPORT TO THE GOVERNOR AND THE GENERAL ASSEMBLY

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December 12, 2003

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

Members of the Virginia General Assembly
General Assembly Building
Richmond, Virginia

This report summarizes the progress of the Public/Private Partnership between the Virginia Department of Taxation (TAX) and American Management Systems, Inc. (AMS), pursuant to Section 58.1-202.2 of the *Code of Virginia*. This cumulative report is a follow up to the last Partnership Project Update Report to the Governor and General Assembly issued November 26, 2002. New information for the immediate past year begins at page 23.

Significant progress was achieved during Fiscal 2003. The primary software build for our new accounting system was completed, and that software is now undergoing a rigorous series of tests designed to ensure it will perform as designed. The Public/Private Partnership was expanded this year to include the Tax Amnesty program enacted by the 2003 General Assembly. As a result, our contract with AMS was extended for one year, and the final component of the project was delayed until September 2004.

The investments we have made are now resulting in significant operational improvements, as you will clearly see in the *Operational Success* section of this report. I am pleased to be able to report to you that the technology and process improvement initiatives implemented under this program have had a dramatic impact on our operating efficiency and our ability to meet a continuously expanding volume of service requests. For example, our e-Government initiatives alone have already eliminated the need to process well over one million returns, payments, and service requests that would normally have been received by paper or telephone. Our new Channel tools have eliminated the need to file and store over five million paper returns. Over \$159 million in new compliance revenue has been generated as a result of the Partnership Project. These operational success stories are exciting and will enable TAX to meet our continuous improvement objectives.

The Partnership continues to be successful, and TAX and AMS are building on the strong relationships built over the past five years as we continue our modernization efforts.

Kenneth W. Thorson
Tax Commissioner

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“The 2003 Partnership Project Update Report to the Governor and General Assembly contains a complete discussion of the projects completed during the Partnership, including those activities described in earlier reports.”

INTRODUCTION

A 1993 study completed by the Joint Legislative Audit and Review Commission recommended that the Department of Taxation (TAX) replace its State Tax Accounting and Reporting System (STARS), the primary hardware and software supporting the Commonwealth's revenue system. TAX entered into a Partnership agreement with American Management Systems, Inc. (AMS), an international consulting company based in Fairfax, Virginia, that will not only replace the aging STARS systems, but will completely reengineer operations at the department.

Section 58.1-202.2, *Code of Virginia* authorizes the Tax Commissioner to enter into public-private partnership contracts to finance agency technology needs. Any such contract must be funded from increased tax revenue attributable to the successful implementation of new technology delivered under the contract. This section further calls upon the Commissioner to prepare an annual report to the Governor and the General Assembly “on all agreements under this section, describing each technology program, its progress, revenue impact, and such other information as may be relevant.”

THE PUBLIC – PRIVATE PARTNERSHIP WITH AMS

A contract between TAX and AMS was signed in July 1998, in the amount of \$122.9 million plus interest. This is the only agreement TAX has executed under the provisions of Section 58.1-202.2, except for successive amendments to the original agreement.

Initially, AMS finances the hardware, software, and services it provides. As results are achieved, TAX pays AMS from incremental tax revenues generated by the effort. The cost of the project is not supported by the Commonwealth's general operating budget. New tax revenue resulting from state-of-the-art case management techniques, better audit productivity and selection, enhanced discovery capabilities, and streamlined collection processes pay for the project. At the same time, use of these tools reduces the incidence of false positives in the selection of audit candidates, thereby freeing compliant taxpayers from the burden of unnecessary inquiries and needless audits.

Taxpayers benefit further by gaining access to new services and an enhanced service orientation, while TAX dramatically improves its operational effectiveness. State-of-the-art information systems provide TAX's customer service representatives with immediate electronic access to returns, taxpayer correspondence, payment history, and tax laws and regulations to answer customer inquiries about their accounts and filing obligations with dispatch. Individual and business taxpayers use a variety of secure,

technology-based tools that simplify how and when they interact with TAX. By leveraging advancements in computing, imaging, and telephone technologies, taxpayers more easily file and pay their taxes, while TAX accelerates the issuance of refunds and the processing of returns.

TAX and AMS are combining a variety of best practices drawn from industry successes with the latest technological tools. "Placing the customer first in everything we do" is the underlying theme in the projects TAX is undertaking now and in the future. One key objective is to create a dynamic environment for taxpayers to understand tax requirements clearly and to file and pay in a timely, efficient, and convenient manner.

Partnership initiatives include reengineering all processes and replacing the entire technology platform, including the latest network infrastructure and Web-based technologies that link individual taxpayers, businesses, and employees who may be located in the central office, a district office, or working from their homes. Taxpayers are able to file returns electronically (gaining electronic access to account information, tax rulings, and regulations). Customers also benefit from access to customer service representatives who, in turn, have faster access to information pertinent to their inquiries. By using case management and Customer Relationship Management (CRM) tools, TAX ensures the prompt handling of cases, eliminates misplaced or misrouted paper, and reduces correspondence backlogs.

TAX's antiquated data entry equipment and huge paper warehouse are being replaced with modern Optical Character Recognition/Intelligent Character Recognition (OCR/ICR) technology. OCR/ICR captures and retrieves data and images and eliminates paper storage of returns and correspondence. The project will also replace TAX's automated accounts management system (STARS) with a new Integrated Revenue Management System (IRMS) which is easier to modify and adapt to constantly changing legislation and processing needs.

This 2003 Partnership Project Update Report for the Governor and General Assembly contains a complete description of the projects completed during the Partnership, including those activities from the first four years as described in earlier reports. In addition, for the first time, this report includes a section devoted to describing the incremental changes in services and operational efficiencies that have been achieved as a result of the initiatives implemented by the Partnership. These improvements have been recognized a full year or more ahead of the conclusion of the Partnership contract, and are described in the section titled *Operational Success*.

“TAX and AMS implemented new and enhanced audit and collection programs to generate incremental revenue to pay for the project.”

YEAR ONE: JULY 1998 – JUNE 1999

FAST TRACK STRATEGY

A number of tactical “Fast Track” initiatives were completed in the first year of the Partnership Project. These initiatives were intended to, and indeed succeeded in, jump-starting the revenue stream needed to fund the project. In addition, two non revenue-generating initiatives were implemented in order to produce visible “early wins” for TAX’s customer service objectives. As the project is not supported by a general fund appropriation, TAX and AMS implemented new and enhanced audit and collection programs to generate incremental revenue to pay for the project. AMS undertook the risk that the price it charges TAX for systems development, hardware, software, and other deliverables would not be fully reimbursed from revenue generated by the Fast Track projects.

With a finite number of available collectors in the central and district offices, STRATA helps TAX devise collections strategies that:

- maximize collections by in-house collectors
- outsource accounts to private collection agencies
- designate accounts for self-cure
- write-off accounts that are too costly to collect

As new collection strategies are attempted, STRATA will continue to analyze statistical patterns and reassign risks, providing a continuous means to improve collections strategies and deploy staff efficiently. Through June 30, 2003, STRATA has been responsible for the collection of \$100.6 million in additional revenue.

STRATA COLLECTIONS

The installation of AMS’s STRATA Risk Management System was implemented in October 1998, to prioritize TAX’s delinquent accounts based on potential for collection. Using a retrospective statistical analysis of delinquent accounts, STRATA organizes current tax receivables into risk categories designed to help collectors determine which accounts and associated collection strategies will produce the best return.

DISCOVERY AUDIT PROGRAMS

A number of new initiatives are designed to use the latest data-matching technology, along with new third-party data sources, to discover entities that do not file tax returns. At the heart of these initiatives, a software product called Trillium allows TAX to match its taxpayer database with external data obtained from government or private databases to discover individuals and businesses operating in Virginia, but who are not

registered or filing the appropriate taxes. Trillium has the capacity to perform data matches even when two databases use different keys. For example, TAX can match its business registration database (keyed by a unique account number) to the Department of Alcohol Beverage Control's (ABC) database of restaurants (keyed to a different account number). By matching databases with incompatible keys, Trillium gives TAX a new tool to identify discrepancies in data reported by taxpayers to different entities and to discover taxpayers operating in Virginia who have not disclosed their existence to TAX.

Data from the following third parties were matched by Trillium: Department of ABC, business license databases from local governments, American Business Information (ABI), and several databases from the IRS. Begun in September 1998, the Discovery program has generated \$743,581 through June 30, 2003.

FIELD AUDIT PRODUCTIVITY/SELECTION TOOLS

In June 1999, the Partnership replaced 225 old and obsolete laptops used by field auditors to perform Sales and Use, Corporate, and Withholding tax audits of businesses. The new state-of-the-art laptops, distributed to auditors during a three-day training program, were loaded with Windows NT, Office 97, and newly designed audit software that reduces the computational burden faced by auditors performing data capture and complex tax calculations in the field. A new Invoice Capture Tool (ICT) was implemented to download accounting data directly from a

taxpayer's system to perform Sales and Use tax audits.

As with the Discovery program, TAX is using Trillium and external sources of information to develop audit selection models. These models are designed to improve the candidates picked for field audits. Before the Partnership Project, approximately half of TAX's field audit hours were expended on audits of businesses with tax liabilities of less than \$10,000. New audit selection models, operating under a new centralized audit selection process, are improving the yield of TAX's field audit program by picking audit candidates with the highest probability of noncompliance. Improvements in audit selection help eliminate nuisance audits of candidates for which field audits are likely only to disclose substantial compliance.

External sources of information used by the new audit selection tool include databases from: Department of ABC, ABI, IRS, Department of Professional and Occupational Regulatory Boards (DPOR), Department of Accounts (DOA), General Services Administration (GSA), Virginia Lottery Department, and the Virginia Employment Commission (VEC).

These audit productivity/selection tools are meant to:

- reduce the amount of time TAX's field auditors take to perform audits
- increase the number of audits performed annually by auditors
- improve the yield from field audits
- reduce the burden field audits impose on businesses selected for audit

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Since May 2000, these field audit tools have generated \$49.2 million in additional revenue through the end of Fiscal Year 2003.

WRITE-OFF/LIEN PROGRAM

Again, using the data matching tools developed by AMS, TAX is searching its inventory of inactive collection accounts previously written off by TAX or its outside collection agencies. Using payroll information from the VEC, TAX matches recent payroll data to its

write-off database. When a match is discovered, the write-off account is reactivated and a third-party lien is issued to capture a payment on the account. This technology has helped TAX wring out additional revenue from its inactive collections inventory. Since its inception, this program has generated \$8.7 million.

REVENUE ATTRIBUTED TO PARTNERSHIP PROJECT	
Fast Track Initiative	Actual Revenue Thru June 2003*
STRATA Collections	\$100,555,229
Discovery Audit Programs	\$ 743,581
Field Audit Productivity/Selection Tools	\$ 49,188,863
Write-Off/Lien Program	\$ 8,738,627
Total Revenue	\$159,226,300

* THROUGH SEPTEMBER 30, 2003 TOTAL REVENUES HAVE EXCEEDED \$172.8 MILLION

“The purpose of the Blueprint is to guide TAX in realizing its Vision for 2004 and beyond...”

YEAR TWO: JULY 1999 - JUNE 2000

WEB PAGE/TELEFILE/ BLUEPRINT/TRANSITION PLAN

The second year of the project focused on the redesign of TAX's Web site, the individual income Telefile Pilot, the agency-wide Blueprint, and the Transition Plan.

REDESIGN OF TAX'S WEB PAGE

Intended as a customer service initiative, TAX rolled out a newly designed Web page. The design has a new look and feel and allows for easier navigation through the content. New computational tools were added, allowing taxpayers to calculate their tax liability automatically without resorting to tax tables, and to help married taxpayers allocate their exemptions and deductions to their best advantage when using the two-column format required by filing status 4 (for tax year 1999) or assisting filing status 2 taxpayers complete the Spouse Tax Adjustment Worksheet (for tax year 2000). These new features are available in addition to the present content that provides various filing instructions, news about TAX, e-mail to customer service representatives, and on-line ordering of tax forms.

INDIVIDUAL TELEFILE PILOT

In January 2000, Individual Income tax filers who filed short forms

(Form 760S) from at least 17 localities were asked to file their 1999 short form by telephone. These taxpayers were given a PIN and instructions on how to dial into the Voice Response Unit (VRU) with a touch-tone telephone. The VRU provided voice instructions on how to enter the necessary filing information to receive a refund or pay any tax due by credit card. Telefilers need not use a paper return or send W-2s. Approximately 59,000 taxpayers participated in the Telefile Pilot.

THE BLUEPRINT

In February 1999, the Partnership Project embarked on the development of a Blueprint that provides a view of what TAX will be in the future. The Blueprint projects lasted nine months and covered every operational area of TAX. To develop the Blueprint, AMS and TAX studied existing operations and identified opportunities for improving the way TAX performs its work. The purpose of the Blueprint is to guide TAX in realizing its Vision for 2004 and beyond by defining new and reengineered business processes and recommending strategic initiatives.

A number of strategic initiatives were identified in each major process area, a few examples of which are shown below. In many cases, these innovative approaches involve the application of state-of-the-art technologies not contemplated prior to the Blueprint.

Customer Service

Self-Service Tax – use the Internet to provide the capability for our customers to conduct transactions independent of contact with TAX staff.

Customer Relationship Management (CRM) - integrate the telephone and robust system applications that will provide customer service representatives with a consolidated view of the customer, and use all available information about a customer to improve the service provided to the customer in a single telephone call without the need for follow-up, when possible.

Correspondence Management – use imaging and automated workflow to support the processing of correspondence and use standardized templates to make outbound correspondence consistent and professional across TAX.

Proactive Customer Education – establish a centralized Customer Education Unit to plan and deliver education efficiently, as well as a central repository for all customer education materials.

On-line Registration – use the TAX Web site to make it easy for taxpayers to register.

Automatic Assignment of Federal Employer Identification Numbers (FEIN) – partner with the Internal Revenue Service to allow TAX to assign FEINs to new businesses.

Knowledge Workers of the Future - provide the necessary tools to enable customer service representatives to provide consistent and high quality service to customers.

Channel Management

Automated Return Data Capture – develop and promote electronic channels for filing and payment, including Telefile and Internet filing. For remaining paper returns, implement imaging and automated character recognition using Optical Character Recognition (OCR) and Intelligent Character Recognition (ICR).

Compliance

Compliance Operational Tools – incorporate decision analytics, including risk assessment and modeling, to determine the best way to select compliance cases and the most effective treatment to be used for bringing selected customers into compliance.

Mobile Office - implement the technology and tools necessary for Compliance personnel to perform auditing, tax discovery, criminal investigation and collection activities effectively regardless of where they are located.

Policy and Research

Proactive Policy Development Process – implement a proactive policy development process that uses analysis of business trends, federal legislation, and other external sources to identify issues.

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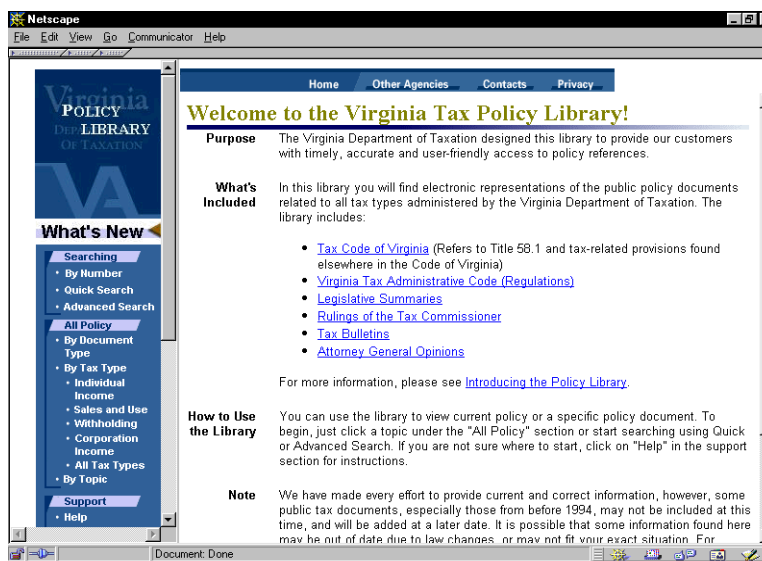
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Distinct Dispute Resolution Process - separate the Dispute Resolution and Policy Development processes, allocating dedicated staff of analysts and reviewers to the Dispute Resolution process to allow case resolution to proceed smoothly throughout the year and enable Policy staff to focus on its core activity—policy development.

Policy Library – implement a policy library that is universally accessible to customers using the Internet.

TRANSITION PLAN

The Blueprint provided more than a list of process improvements and technology recommendations. It also put the whole reengineering effort into a context that revealed a vision for the agency and its programs through the year 2004. With the Blueprint complete, TAX and AMS jointly decided which elements of the Blueprint could be delivered under the contract and when. Specific projects were grouped into seven areas, and a strategy was developed to make sure all project initiatives were consistent with each other and with the Blueprint and the Vision. The result was a detailed Transition Plan that showed the scope of the remainder of the project.



YEAR THREE: JULY 2000 - JUNE 2001

"The redesign of the Form 760 was driven by a clear focus on the needs of the customer."

NEW FORM 760/IMAGING/ CUSTOMER FACING APPLICATIONS

Several major projects were implemented in year three that replaced outmoded data entry equipment, installed new imaging capability, enhanced customer service, provided new filing channels, and redesigned tax forms including:

INDIVIDUAL INCOME TAX RETURN AND INSTRUCTIONS REDESIGN

While the implementation of new scanning and imaging equipment for return processing required some changes to the Individual Income tax form, TAX decided to 'reinvent' the form and instructions for the first time since 1972. As a result, the tax year 2000 Virginia Resident Form 760 and instructions for filing Individual Income taxes were completely redesigned. Focus groups were conducted around the Commonwealth, and suggestions from taxpayers and tax professionals alike that

had come in over the years were examined and incorporated into the design of the new form and instructions. The form redesign effort was driven by six key objectives:

- Support automated data capture (OCR/ICR)
- Reduce filing burden
- Balance customer service and compliance
- Enhance processing efficiency
- Increase the flexibility to make future changes
- Eliminate the need for paper attachments

Within the obvious boundaries of conformance with state tax laws, great strides were made in designing a tax return that is simple, easy to complete, and minimizes the amount of supporting material and paper attachments required to be filed with the return. At the same time, the new form provides greater flexibility to support legislative changes and data capture for research and compliance needs. The form supports a high degree of automation in processing and will, in the long run, reduce the processing effort required to handle the high volume of paper returns.

REPLACE OUTMODDED DATA ENTRY SYSTEM

TAX's old Motorola key-to-disk data entry system was obsolete.

Replacement parts could be obtained only by cannibalizing existing equipment. The only company still servicing these machines was near bankruptcy. Continued operations on this system would create an unacceptable risk to the Commonwealth's revenue administration.

TAX and AMS installed a new PC Data Entry system in a newly renovated facility that houses 80 workstations. The system runs on software called Lifeworks and is capable of handling the data entry of any tax form in use by TAX. Data stored by the system is backed up nightly by a modern tape backup system.

IMAGING – PHASE I

TAX's first experience with imaging technology began with the installation of three high-speed scanners and an OSAR system for the automated data capture, electronic storage, and retrieval of tax returns and correspondence. This technology is TAX's answer to the growing burden of filing, storing, and retrieving mountains of paper generated by tax processing and correspondence. An entire warehouse devoted to the storage of tax returns will be replaced by imaging technology. Retrieval of returns and documents stored at the warehouse takes an average of two weeks. Using imaging technology, document retrieval should be a matter of seconds.

In Phase I, TAX and AMS developed and installed the system to image a limited number of 1999 income tax returns and business registration forms (Form R-1). These forms were scanned, indexed, and stored on OSAR platters for

the purpose of electronic retrieval. Image retrieval was also activated under which end users with PCs could search for and view images of scanned returns.

IMAGING – PHASE II (PILOT)

Imaging – Phase II entailed the high speed scanning, automated data capture, indexing, and storage of tax year 2000 Income Tax returns on a pilot basis under controlled production. The Phase II system was rolled out in February 2001, and is capable of handling handprint and machine-print income tax returns. TAX succeeded in its goal of imaging approximately 471,000 paper returns by June 30, 2001. The Phase II Imaging system went into full income tax production in January 2002.

TELEFILE

For tax year 2000, Telefile was expanded from its 1999 pilot and made available statewide as a replacement for the Virginia Resident Form 760S short form. Nearly 670,000 taxpayers were eligible for using the Telefile program for their 2000 tax returns. This application is a simple way to file taxes, with the average toll free telephone call lasting just seven minutes. Direct deposit of refunds also makes this application an effective way for qualified users to receive refunds in the shortest possible amount of time.

Telefile is simple, easy to use, and promotes an extremely low error rate among filers. Telefile captures all return data electronically and performs all math functions automatically for the user. For tax year 2000, TAX received 160,000 Telefile returns. These returns had an

error rate of less than one percent. For tax year 2001, TAX received approximately 141,000 Telefile returns, again with an error rate of less than one percent.

INTERNET APPLICATIONS

As part of the vision to offer self-service options for taxpayers, and to make government more accessible to its citizens, the Partnership developed a series of Internet applications that provide on-line filing services and information. With these applications, Virginia citizens enjoy access to electronic tax services and information that are among the most complete anywhere in the country.

Each Internet filing application performs all relevant mathematical calculations and edit checks to help ensure that each user submits a return that is nearly "error free" and complete, minimizing any chance that returns will be subject to manual error resolution/correction and subsequent follow-up with the user. Each application also supports delayed payments, a feature that allows the return to be filed at any time during the relevant filing period, while payment is delayed for execution on the due date of the return. Payments can be made either by check or credit card, or in some cases, electronic funds transfer.

iFILE FOR BUSINESS

The iFile for Business application allows taxpayers to file Sales and Use and Withholding taxes over the Internet. It also allows taxpayers to view the past twelve months of account history on-line, regardless of how previous returns have

been filed. This level of account access is the first of its kind in the nation and is consistent with the vision of providing a complete self-service channel for taxpayers.

In addition, the iFile for Business application is being integrated with the Virginia Employment Commission to allow taxpayers to file and pay unemployment insurance taxes at the same time as they file and pay their taxes with TAX. This intra-government cooperation will provide taxpayers with a first step toward "one stop shopping" when it comes to paying business taxes.

"This is the best government innovation I've encountered in a decade."

Actual quote from iFile for Business user

iFile for Business is currently available on-line through TAX's Web site at www.tax.state.va.us. As of June 2003, over 44,000 businesses have registered for iFile and use it regularly.

Integration with the Virginia Employment Commission became available to the public in July 2001.

iFILE FOR INDIVIDUAL

The iFile for Individual application allowed taxpayers to file their 2000 Virginia resident Individual Income taxes over the Internet. This application provides a level of interactive customer service that was new in Virginia. For example, taxpayers are not only able to file and pay their taxes, but can also make name and address changes and conduct

other simple account management functions, such as checking the status of their refund on-line.

As with all of our Internet filing applications, iFile for Individual supports the concepts of 'error free' filing and payment warehousing. While we are able to provide new services to the taxpayer through this application, the iFile for Individual application is a fairly simple application that is not intended to compete with sophisticated commercial software applications. iFile for Individual was available to all taxpayers filing a Virginia resident income tax return in 2000 who also filed in 1999. A small proportion of taxpayers, those with tax credits (using the CR schedule) and those required to attach federal schedules, are unable to use iFile for Individual.

Available in January 2001, iFile for Individual was released on a pilot basis. No promotion or public awareness campaign was conducted so that the new system could be tested under controlled conditions. Approximately 20,000 users discovered the application on TAX's Web site and used the application to file their year 2000 income tax return. These returns averaged a very low error rate of 4.5 percent. User feedback was very favorable. In 2002, almost 84,000 taxpayers used iFile to file their returns. As of June 2003, another 121,000 taxpayers had used iFile to file a return.

POLICY LIBRARY

The Policy Library is an Internet application that provides unprecedented access to Virginia tax policy information to the citizens of the Commonwealth.

Developed with the assistance of Commerce Clearing House, Inc. (CCH), this searchable database includes not only the tax sections of the Code of Virginia, but the Virginia Tax Administrative Code, Rulings of the Tax Commissioner, Tax Bulletins, Attorney General Opinions, and Legislative Summaries. The library can be searched by keyword or phrase, or browsed by topic or document type. The Policy Library became available to the public late January 2001. Its electronic library now contains all documents as far back as 1985.

iREG FOR BUSINESS

The iReg for Business application allows new businesses to register on-line and will allow existing businesses to add business locations, consolidate filings, and update address and contact information. It simplifies the registration process by reducing a complex registration form of several pages to a simple interactive paperless application. At the end of an iReg session, new businesses are fully equipped to perform all their tax filing obligations. The iReg application will assign new account numbers, provide instructions on filing returns, and will print sales tax registration certificates for display at business locations.

Since becoming available for public use in April 2001, it has exceeded TAX's expectations by capturing approximately fifty percent of all new business registrations. More than 33,000 new businesses had been registered through iReg by June 2003. On an average day, between 50 and 100 new business registrations are conducted through iReg.

As of July 2001, iReg became integrated with VEC, enabling businesses to register for VEC taxes at the same time they register with TAX.

CUSTOMER RELATIONSHIP MANAGEMENT – PHASE I

Customer Relationship Management (CRM) is a series of tools that enable a Customer Service Representative (CSR) to provide faster, consistent, and better service to taxpayers calling, writing, or e-mailing TAX. By providing a “consolidated view of the customer,” electronic scripting, reference material, and seamless navigation between computer systems, the TAX CSR is able to provide a higher degree of consistent customer education and service.

In Phase I, CRM provided “screen pops” and “scripting” for CSRs. Screen pops occur during the routing of an incoming call to a CSR. When a call is connected, the CSRs computer screen automatically pops with the caller’s account information, thereby sparing CSRs the time and tedium of asking for and entering SSNs or account numbers on every call taken.

Scripting provides a set of question and answer trees available to CSR’s as a computerized aid in answering questions posed by taxpayers over the phone. TAX developed about ninety scripts devoted to fielding questions from taxpayers about the new Form 760 and instructions. Each script is activated when a CSR clicks on the subject of a call, prompting the CSR’s screen to pop with a question for the

taxpayer. Depending on the taxpayer’s answer, the screen then prompts the CSR with an answer or with another question for the taxpayer. In this way, the scripting system guides the CSR through the question and answer tree necessary to solve the

“CRM tools provide the user with information about every interaction between a customer and TAX. . . .”

taxpayer’s problem. Phase I scripting and screen pops were rolled out to Customer Service Representatives in December 2000 in time to assist with the income tax filing season. Scripts are also available in electronic form for use by income tax staff employed by local Commissioners of the Revenue.

LOTUS NOTES ROLLOUT

TAX’s e-mail system was upgraded and replaced with Lotus Notes in December 2000. With its higher capacity, the Lotus Notes system was extended to many more users in the central office. For example, for the first time, all CSR’s in the Office of Customer Service were connected by the same e-mail system, enabling managers and supervisors to communicate instantly during income tax filing season on the volume of incoming calls and the condition of critical systems. Expansion to users in district and home offices occurred in year four of the project.

Lotus Notes also provides robust document management and retrieval functions that will help provide important reference materials to tax employees. For example, a project is underway in which

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all operating policies and procedures will be placed in a Lotus Notes database for electronic searching and retrieval by TAX employees. In addition, official documents such as procurement approvals or revenue impact statements can be originated, tracked, routed for approval, revised, and electronically approved in a paperless process using the document management features of Lotus Notes.

“With answers to the questions of why, how, and how frequently customers need assistance, TAX can improve the level of service provided to customers and focus on reducing a customer's need to contact the department.”

YEAR FOUR: JULY 2001 – JUNE 2002

The fourth year of the project focused on additional phases of CRM, replacement of the collections system, implementing the production version of the Imaging system, and expansion of Internet functionality.

CUSTOMER RELATIONSHIP MANAGEMENT (CRM) – ADDITIONAL PHASES

New releases of the CRM tools developed by TAX and AMS rolled out in fiscal year 2002, with an additional phase planned for fiscal year 2003. Together they will provide a full-featured CRM suite of tools for Customer Service Representatives (CSRs) to better serve customers.

To ensure an effective rollout of the CRM tools, TAX developed an implementation strategy consistent with the underlying goals and vision of the agency. The first release of Customer Relationship Management tools in Virginia supplied call center management functionality to assist during the 2000 filing season – the first with the redesigned Form 760. The second release added correspondence management and integrated TAX's imaging system with the CRM software.

The third release of the CRM tools focused on enhancing functionality for the

Customer Contact Center. Incoming correspondence is now imaged and routed electronically to indexers who associate the letter with a taxpayer account and categorize the correspondence, a process that provides actionable information about the reason taxpayers are sending correspondence. After customer correspondence is imaged and indexed, the correspondence is then assigned to available staff based on CSR skills and established workflow rules.

With this latest release, all customer contact channels are now integrated, including telephone calls, correspondence, email, fax, and secure messaging. The design of this phase incorporated the concept of a holistic or “Consolidated” view of the customer, a philosophy that leverages what TAX knows about the customer to ensure an appropriate interaction and response.

The Virginia CRM solution also allows electronic routing of calls and correspondence to employees in different work units and even those located remotely. For example, during peak call volume periods, incoming phone calls are routed to different work areas, including district offices, so that staff resources can be used effectively to meet the peak needs.

Remote staff who can retrieve work from electronic queues are also answering correspondence that is imaged and routed electronically. In January of

2002, TAX had a backlog of 55,000 pieces of incoming correspondence. Using CRM, TAX electronically distributed unanswered correspondence to qualified staff in district offices and staff working from their homes. By June 2002, the correspondence backlog had fallen below 10,000 letters and faxes.

This new CRM functionality was developed to aid the collections process also. A key benefit of CRM is its ability to provide staff with a comprehensive view of customer information through a single screen: the "Consolidated View." At the click of a button, Collections and Customer Service staff will immediately be able to retrieve scanned customer correspondence and other electronic contact records through an on-screen image viewer.

Since the adoption of the CRM tools, TAX has handled 237,379 calls, 83,473 pieces of imaged correspondence, 9,063 faxes, and 23,318 emails, all of which have been indexed and categorized providing useful information for trend analysis. With answers to the questions of why, how, and how frequently customers need assistance, TAX is improving the level of service provided to customers and focusing on reducing a customer's need to contact the department in the first place.

REPLACE COLLECTIONS SYSTEM (CACSG)

In December 2001, TAX implemented a new Computer Assisted Collections System for Government (CACSG), replacing the Enhanced Collections System (ECS) that had been in

operation at TAX since 1994. TAX was forced to replace ECS because the company that developed it no longer provided technical support for the product. The CACSG project implemented collection features new to Virginia such as:

- self-service payment plans
- a newly designed automated correspondence system with hundreds of new letters drafted in plain English
- automated generation of liens and lien releases
- laptop functionality for collectors working in the field
- automatic assignment of collection cases as cases progress through collection states

CACSG works as a centralized collection case management tool that streamlines case workflow from the time an account is received in the system until it has been accurately resolved. While based on the same underlying collection principles and strategies established by TAX (i.e., phone calls, letters, liens, partial payment plans), CACSG has improved those practices through automation and improved business processes. CACSG is currently on-line and working with the existing STARS revenue system, and will continue to do so until the implementation of the new revenue accounting system, ADVANTAGE Revenue.

CACSG streamlines collections workflow by automatically moving customer accounts through pre-defined work queues or "states" based on account organization, set time frames, and customer responses to collection letters or

telephone contacts. Field, District, Interstate, and Mobile Office users now have the ability to download information to laptops in preparation for field visits.

Improved business processes have been developed to complement this improved information technology. A good example of the synergy between the business process and the technology is the way TAX now handles the establishment of partial payment agreements. CACSG issues monthly reminder letters to our customers with a payment coupon, rather than printing annual payment coupon books. The old technology did not allow the inclusion of a payment coupon with the customer correspondence, but doing so reduces the number of duplicate coupon booklets that require printing.

Teleplan is another new initiative supported by CACSG that has allowed TAX to streamline the business process. Teleplan gives qualified TAX customers the opportunity to set up their own payment plans over the telephone without the need to contact a Collector or CSR. This feature is available to customers twenty-four hours a day. Over 17,000 plans have been established through Teleplan, reducing the volume of inbound customer calls.

Another technical feature of CACSG that enhances collections case workflow is a new automated lien process. TAX and third-party databases are automatically searched for lien sources. Both Third-Party Liens and Memorandums of Lien are then automatically printed and mailed without manual intervention by internal Collection staff.

In addition to the functionality inherent in the new collections system, the December 2001 release of CACSG dovetailed with the latest release of Customer Relationship Management (CRM).

IMAGING - PRODUCTION

The Virginia high-speed imaging solution is one of the most innovative in the nation. Rather than implementing an out-of-the-box imaging and data capture solution, TAX, AMS, and software and hardware vendors such as IBML, Inc., and Datacap, Inc., worked together to develop a business solution to meet Virginia's needs. The solution is the first high-speed scanning and data-capture system that supports the use of two-dimensional barcode technologies. The inclusion of the support for 2D barcode has helped significantly reduce the returns processing error rate, which during the first full year of operation was less than ten percent, or about half the error rate of the previous year's filing season before the imaging system was in full production. In its first year in full production, the imaging system contributed to what can only be described as the most effective processing season ever at TAX.

Through June 2003, nearly five million paper tax returns had been processed through the imaging system. These images of returns are now available instantly at each Customer Service Representative's desktop to aid in answering taxpayer questions.

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EXPANSION OF INTERNET FUNCTIONALITY

A number of new services were added to TAX's Web site during year four of the Partnership to address the ongoing needs of a constantly increasing user base. In April 2002 alone, the Web site had over 440,000 visitors.

The Department's Web site was totally redesigned by AMS and TAX, highlighting the broad spectrum of transactions that can now be performed on-line using this suite of customer service tools.

request for an extension was received and is valid.

ESTIMATED PAYMENTS ONLINE

Businesses and Individuals can make estimated payments on-line. As with other VATAX Online applications, payments are made via Electronic Funds Transfer (EFT), and Payment Warehousing is available. Businesses and Individuals can take advantage of the ability to warehouse payments and make a full year of payment without ever having to write a check.



EXTENSIONS ONLINE

Businesses and Individuals can ask for an extension of time to file their taxes on-line. As with other VATAX Online applications, payments are made via Electronic Funds Transfer (EFT), and Payment Warehousing is available. This new service provides businesses and individuals with the assurance that their

SECURE MESSAGE CENTER

Historically, TAX has been unable to utilize conventional e-mail to answer confidential tax account inquiries because traditional email is not secure. A secure and confidential communication channel with TAX is now available at VATAX Online's Secure Message Center.

The January 2002 release of VATAX Online's Secure Messaging Center significantly changed the way customers communicate with TAX. Customers now have the ability to request and receive confidential tax information electronically. This is a significant improvement to the delivery of Customer Service and a tremendous opportunity to move customers to the Internet for all transactions with TAX.

At the Secure Message Center, the messages to and from customers are encrypted using the highest level of commercially available encryption. Messages are simple to create and can be linked to prior messages or are independent of previous messages. Customers also have access to a twelve-month history of their communications with TAX.

As of June 2003, over 14,000 secure messages have been sent by taxpayers and over ninety percent of these messages receive a secure reply within two business days.

WEB EFT

Web EFT is the newest on-line service added to the VATAX Online suite. After reviewing customer suggestions, TAX realized that many customers interact with TAX because they have a bill. Customers expressed the desire to be able to pay the bill quickly and easily on-line, and to print out a confirmation that the payment was received.

The Web EFT functionality allows businesses, individuals, and TAX

representatives to make payments through VATAX Online via EFT. Customers log on to their Home Page and simply enter the bill number, payment amount, bank and account information, and transmit the payment in a matter of seconds.

“Many highly visible new products and services are now available to Virginia citizens as a result of the Partnership Project. . . .”

YEAR FIVE: JULY 2002 – JUNE 2003

The fifth year of the project focused on completing development of the new back-end accounting system, ADVANTAGE Revenue, as well as the Auditor’s Toolkit. A new remittance processing system was implemented and the Compliance Repository and Audit Selection Systems were implemented ahead of schedule. Budget reductions closed six district offices, but TAX’s field auditors and collectors were able to be home-based as a result of an initiative to provide remote access to all TAX systems. TAX assumed responsibility for most of the new technology infrastructure implemented by the project, including the ongoing upgrade, installation, and maintenance of hardware and third-party software.

A significant change in implementation strategy for the final components of IRMS was necessary to allow TAX to implement a Tax Amnesty program. In addition, significant components of the amnesty program were outsourced to AMS as a new component of the Partnership Project.

REMITTANCE PROCESSING

A new Remittance system was implemented in the fall of 2002. Through the use of advanced remittance technology, electronic key-from image workflow, and character recognition software, the process of preparing checks for deposit and capturing voucher data is greatly improved. Manual keying of checks has been reduced by twenty percent, and hardware throughput has

increased by one hundred percent, contributing to faster deposits for TAX.

ADVANTAGE REVENUE SYSTEM (AR)

This core taxpayer accounting system will replace the old and obsolete State Tax Accounting and Reporting System (STARS) and ensure the ongoing integrity of the Commonwealth’s revenue system. The ADVANTAGE Revenue system (AR) employs state-of-the-art technical architecture and software to integrate all of the front-end revenue systems at TAX. The new AR system will not only provide a secure and stable revenue system, but will also open up new opportunities for providing products and services to the citizens of Virginia in the future.

AR itself supports the areas of taxpayer identification and registration, returns processing, taxpayer accounting, and revenue accounting (including revenue distribution to local governments). Coupled with the recently installed front-end data capture solutions, such as imaging, Telefile, VATAX Online, and electronic filing, AR provides an integrated tax processing solution for all tax types, including individual income tax, corporate income tax, sales and use tax and withholding tax.

AR has now been built and is undergoing a rigorous testing process to

ensure that it performs up to expectation from both a technical and a usability standpoint. This testing includes a series of comprehensive and repetitive tests ranging from unit testing of program code to integrated user acceptance testing, aimed at ensuring all components of IRMS interact accurately and according to their design. Additional information on the remaining activities associated with AR, as well as the schedule for these activities, is included later in this document.

CUSTOMER RELATIONSHIP MANAGEMENT (CRM) – ADDITIONAL PHASES

The citizens of Virginia are already reaping many benefits from the Customer Relationship Management tools that have been put in place over the previous years. Development to integrate CRM with the new ADVANTAGE Revenue system is complete. This integration will add functionality to allow all areas of TAX to collaborate on customer questions and issues, including more complex routing and workflow rules centered on a case management structure.

AUDITOR'S TOOLKIT - A COMPREHENSIVE SOLUTION

The Auditor's Toolkit is an audit management solution that will ensure comprehensive information access and enhanced compliance management through better data administration and robust functional support for tax audit and discovery programs. The Auditor's Toolkit consists of five state-of-the-art

system components and an administrative module.

- 1) Compliance Repository. The compliance repository, the foundation of the Auditor's Toolkit, is a data mart that contains the necessary internal and external data required to create, administer, and maintain nonfiler and under-reporter audit selection programs.
- 2) Candidate Selection. Candidate Selection is a business-oriented decision support application that will provide the capability to create, administer, and track nonfiler programs and under-reporter programs.
- 3) Case Assignment. Case Assignment, the bridge to Case Management, is a workflow application that will enable TAX to prioritize and create cases for candidates identified by Candidate Selection. Additionally, Case Assignment provides the capability to create cases manually, a function typically required for field audit operations.
- 4) Case Management. Case Management is the centralized electronic inventory case tracking system. In addition to case tracking, Case Management provides enhanced automated and manual case workflow, enhanced audit support tools, and mobile computing, all of which are required to support field and office audit operations.
- 5) Audit Administration. Audit Administration gives TAX Audit Managers the capability to configure

and maintain the relational database tables that comprise the system and the capability to analyze and identify reports regarding the effectiveness and efficiency of the application.

The implementation of the Auditor's Toolkit will ensure fair tax treatment and improve administrative efficiency of compliance activities affecting all Virginia taxpayers.

All components of the Auditor's Toolkit were originally scheduled to be implemented in conjunction with the ADVANTAGE Revenue system. TAX and AMS agreed to implement the Compliance Repository and Audit Selection components of the Toolkit ahead of schedule to take advantage of opportunities to increase compliance revenue. The Compliance Repository and Audit Selection components were implemented on August 1, 2003, well ahead of IRMS.

ORGANIZATIONAL DEVELOPMENT AND CHANGE MANAGEMENT

As the Department implements new technologies and new business processes, a substantial effort is ongoing to manage the transition from the old environment to the new, including employee training and education, job redesign, and strategies for staff development.

An end-user training plan and a technical training plan are in place. Over 230 "learning object" topics have been identified to train agency staff. The

training curriculum includes a variety of training delivery methods, including instructor-led classroom activities, technology-based training (TBT), self-study lessons, and self-guided lab practice activities. A significant portion of the training required to re-skill agency IT staff has already been completed.

Drafts of the appropriate user's guides, system administrator's guides, and operations guides have also been developed. Over 750 integrated IRMS operating procedures have been developed and placed in an online repository for easy access by all TAX staff.

TAX AMNESTY AND QUICKPAY

The 2003 Virginia General Assembly enacted a Tax Amnesty program in 58.1-1840.1, *Code of Virginia*. The Amnesty program was to run for a period of between 60 and 75 days and be completed no later than June 30, 2004. TAX needed a window of time to conduct the Amnesty campaign that would not interfere with the upcoming Individual Income filing season. The window chosen was September 2 through November 3, 2003. Unfortunately, this was also the previously scheduled time for conversion from STARS to ADVANTAGE Revenue. As Amnesty campaigns are always an all-hands-on-deck affair, and many systems had to be readied for Amnesty, the conversion was postponed.

The General Assembly assigned an Amnesty revenue target of \$48.5 million above baseline. In other words, the campaign had to generate \$48.5 million above TAX's normal level of audit and

collections revenue. A \$7 million budget was approved for the conduct of the campaign to be funded from the Technology Partnership Fund. The campaign was administered as an additional task to the Public/Private Partnership contract and co-managed by TAX and AMS.

The Amnesty statute provided a waiver of all penalty and fifty percent of the accrued interest on any Amnesty-eligible tax bill, provided that payment was received for the full tax and half the interest. In addition, the statute imposed a post-Amnesty penalty of twenty percent upon Amnesty eligible bills not resolved by the end of the Amnesty window.

The campaign focused on two themes: user-friendly filing and payment options for taxpayers, and extensive taxpayer education and public awareness of Amnesty's benefits.

User-friendly filing and payment options included the following:

- No Amnesty application form required from taxpayers
- "Bill by Bill" participation by taxpayers in Amnesty
- Interest rates on omitted taxes simplified to a single annual rate of nine percent
- Interest accruals frozen on day 1 of the Amnesty window to keep bill amounts from being "moving targets"
- Payment Plans available to make 6 monthly installments (through May 4)
- A new Amnesty web site featuring "QuickPay" (see below)

- Web access to an interest calculator to remove the guesswork from interest calculations on omitted taxes
- Web access to all Amnesty Rules, Guidelines, Forms, and FAQ's

Taxpayer education and public awareness initiatives included the following:

PR/Advertising:

- TV ads featuring "Tax Letterman"
- Newspaper inserts in all major newspapers
- Radio traffic sponsorships in Richmond, Hampton Roads, and Northern Virginia
- Public appearances with "Tax Letterman" and TAX staff to gain TV and newspaper coverage
- Press releases

Three Outbound Mailings to Amnesty Eligible Taxpayers:

- Week 1: 383,000 legal notices sent
- Week 7: 167,000 mailers sent to good Amnesty prospects who had not yet responded to legal notice
- Week 8: 111,000 last chance postcards

Inbound Telephone Calls:

- Toll-Free Amnesty Hotline established: 1-877-VATAX-77
- Six outside collection agencies engaged to staff call centers (Tier 1 Support) to supplement TAX's call centers (Tier 2 Support)
- Telephony systems were deployed to provide sophisticated call routing of inbound calls

Outbound Telephone Calls:

- Outbound calls to Amnesty candidates supplemented mailings and encouraged taxpayers to avoid last minute Amnesty activity

Walk-In Service:

- Walk-in return preparation service was available throughout the Amnesty campaign in Richmond and Norfolk TAX offices
- Seven local offices were made available for Amnesty walk-in service in last two weeks of the campaign

To implement all of this functionality by September, system design work for STARS modifications and the Web applications began in April 2003, immediately upon passage of the Amnesty legislation. These activities created a significant diversion of management attention and systems resources from the ADVANTAGE Revenue conversion. As of publication of this report, Amnesty results are still being tabulated. All Amnesty metrics gathered so far point to the campaign's unqualified success, indicating another major accomplishment of the Public/Private Partnership.

QUICKPAY

Essential to the success of Tax Amnesty was the capability for customers to identify quickly and easily their outstanding liabilities and make payment. QuickPay provides TAX with a high visibility, high impact self-service bill payment channel for both the business and individual community. QuickPay permits Individuals and Businesses to initiate bill

payments using the Internet without requiring the iFile authentication process. In other words, a taxpayer can access a statement of liabilities and make payment electronically using only an account number and the five-digit bill number from any outstanding TAX bill.

QuickPay was implemented to ease the process of bill collection and payment processing during Tax Amnesty by providing an easy, error-free Internet option for customers. During the sixty-three day amnesty period alone, nearly 5,200 payments were made through QuickPay for a total of \$4.1 million. Although developed for Tax Amnesty, QuickPay will continue to provide a valuable convenience to our customers as an ongoing part of the VATAX Online suite of customer service tools.

REMOTE ACCESS

Our new technology infrastructure, combined with new laptop computers, allows employees to access agency systems from any location, including a taxpayer's place of business or an employee's home. In addition, imaging technology has made much of our work "portable," allowing TAX to assign cases to home-based staff electronically.

TAX leveraged these new capabilities to enable the closing of all but one of our district offices. The commute time to a district office in the past was as much as several hours in each direction. Traveling to a district office to access agency systems meant less time spent actively attempting to collect delinquent liabilities or conducting audits. Now over two hundred field collectors and auditors

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can access all TAX systems from offices established within their homes, improving productivity and reducing costs for leased space.

TECHNOLOGY INFRASTRUCTURE

Under the Partnership contract, AMS was initially responsible for the deployment and support of all technology hardware and third-party software. Hardware is procured under a lease program, minimizing maintenance and repair issues and ensuring that employees will continue to have current technology tools.

These responsibilities are now managed exclusively by TAX. During the past twelve months, TAX's technology infrastructure staff deployed over 300 personal computers and two servers, all as a part of our technology hardware refresh program. In addition, all existing equipment was upgraded to Windows 2000. Significant focus was placed on protecting and managing our technology environment resulting in the development of a number of new policy and procedure documents covering areas like IT Change Control, IT Configuration Management, and IT Security.

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“As of June 30, 2003, there was no outstanding balance due to AMS”

PROJECT FINANCES

On July 28, 1998, TAX signed the contract with AMS in the amount of \$122.9 million plus interest. The basic contract provided for several additional options, some of which were exercised and detailed in the October 2001 Report to the Governor and General Assembly. As the contract is benefits-funded, payment for AMS-provided goods and services is contingent upon revenue from improved audit and collection programs being earned and deposited into the Technology Partnership Fund (the Fund). No general fund appropriation is available for payments under the contract. AMS bears the risk of nonpayment should revenues in the Fund be insufficient to meet all AMS invoices.

Revenues earned under the project are split ninety percent for payment of AMS goods and services and ten percent for TAX to cover any additional project-related expenses not covered in the contract. In Fiscal Year 2004, this ratio changes to 70/30, with TAX retaining a higher proportion of funds to cover higher operating costs related to the project. Through June 30, 2003, Partnership revenues have been earned and deposited into the Fund as follows:

Technology Partnership Fund Revenue Through June 30, 2003

Total Revenue Deposited:	\$159,226,300
For AMS Deliverables (90%)	\$143,303,670
For Project Related Expenses (10%)	\$ 15,922,630

INTEREST EXPENSES

When balances in the Fund are insufficient to meet current obligations, unpaid invoices accrue interest in AMS' favor at the rate of ten percent. In 1998, accrued interest was projected at \$17 million over the life of the project.

The Fast Track projects, the primary revenue generating projects, were implemented ahead of schedule and began generating revenue sooner than planned. At the same time, project expenses have been incurred at a rate slower than originally expected. Consequently, interest expenses have been lower than projected.

Through June 30, 2003, \$1,075,586 in interest was paid to AMS. The current projection of cumulative interest expenses through project completion is now \$2.1 million, dramatically less than the original \$17 million estimate. The additional interest yet unpaid is attributable to the contract holdback of \$10 million.

CONTRACT PAYMENTS TO AMS

Through June 30, 2003, AMS has invoiced TAX for \$110.7 million in accepted deliverables plus the \$1.1 million in interest charges described above. TAX has paid

REPORT TO THE GOVERNOR AND THE GENERAL ASSEMBLY

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AMS the full amount due of \$111.8 million. As of June 30, 2003 there was no outstanding balance due to AMS, and the

Technology fund had a positive balance of \$31.5 million. The latter amount remains encumbered for future billings.

Contract Invoices and Payments Through June 30, 2003 (From 90% Technology Fund)

Cumulative Invoices From AMS for Deliverables	\$110,718,267
Cumulative Interest Charges	<u>\$ 1,075,586</u>
Total Billings From AMS	\$111,793,853
Amount Paid to AMS from the Fund	\$111,793,853
Amount Owed to AMS from the Fund	\$0

Original Contract Budget as of 7/98

At project inception on July 28, 1998, the contract budget was as follows:

Contract for Goods and Services Delivered by AMS	\$122,857,084
Estimated Cumulative Interest Charges (5 Years)	<u>\$ 17,638,830</u>
Total Goods, Services, and Interest	\$140,495,914

Contract Budget as of 11/2001

Contract for Goods and Services Delivered by AMS	\$153,210,690
Estimated Cumulative Interest Charges	<u>\$ 2,689,074</u>
Total Goods, Services, and Interest	\$155,899,764

The changes to the contract and options that were exercised are detailed in the October 2001 Report to the Governor and General Assembly. These changes include:

- Collections Systems Replacement
- Internet Tools
- Oracle/DB2 Platform Change
- Audit Repository and Selection System

Contract Budget as of 1/2003

Contract for Goods and Services Delivered by AMS	\$166,210,690
Estimated Cumulative Interest Charges	<u>\$ 2,075,586</u>
Total Goods, Services and Interest	\$168,286,276

The changes to the contract are described in this document. These changes include:

- Tax Amnesty Program
- Delay in final implementation
- Support through initial tax filing season

“The primary remaining initiative is the continued development and testing of ADVANTAGE Revenue (AR) for implementation in October 2003.”

PROJECT SCHEDULE

Legislation was passed during the 2003 General Assembly session that required TAX to implement a Tax Amnesty program during the Fall 2003. Amnesty was a critical and complex undertaking. Implementation of AR was previously scheduled to occur in October 2003, at the same time the Amnesty program is to be conducted. It clearly was not possible to implement AR and the Amnesty program simultaneously, and TAX has stated from the beginning of the contract that we would not do a major system implementation during an Individual filing season. As such, it was necessary to delay implementation of AR until August 2004 to accommodate for the diversion of staff and attention to Amnesty. Further schedule refinement resulted in an implementation date of September 14, 2004. To ensure that AMS staff are onsite supporting TAX through the first filing season with AR, it was necessary to extend the support portion of the contract until July 2005.

operate and use the new integrated system prior to actual cutover. The actual conversion will begin at the end of August and the new integrated system will replace STARS on September 14, 2004. A controlled production period will help ensure that all production activities are closely monitored, that any defects are identified and resolved quickly, and that the appropriate focus is placed on priority tasks.

The key activities of the remaining schedule include testing the integration of all newly-developed systems with AR, as well as repetitive tests of the conversion of a substantial amount of data from the old STARS system to AR. In addition, TAX and AMS will conduct several “mock” conversions, during which the entire conversion process is tested and perfected.

A “mock production” initiative is planned to provide a “dress rehearsal” during which TAX staff will actually

“It is clear that the tools, processes, and cultural changes brought about by the Partnership Project have enabled TAX as an agency to perform at an unprecedented level.”

OPERATIONAL SUCCESS

The Partnership Project has already made a profound impact on agency operations. Customers now have access to a wide range of services that were previously unavailable. Employees have access to new, easy to use tools that allow them to provide excellent customer service. TAX is processing more transactions at a faster pace than has ever been possible before. Backlogs are at an all time low. It is clear that the tools, processes, and cultural changes brought about by the Partnership Project have enabled TAX as an agency to perform at an unprecedented level.

e-GOVERNMENT

Nowhere has the impact of the Partnership Project been more recognizable than in the area of e-Government. A new business in Virginia can now register, file, pay, and even request assistance in resolving an account-related problem without ever submitting a piece of paper or calling TAX. E-Government is not only transforming the way citizens interact with us, but also improving the efficiency of agency operations allowing us to manage continual growth in request for services.

e-Government Operational Metrics

iFile for Individuals - Usage up **43%** compared to last year

- Since inception, 226,000 citizens filed their tax return online, eliminating the need to process 226,000 paper returns
- 98% found iFile easy to use
- 99% would use iFile again
- Error rates 79% lower than paper returns

iFile for Businesses – Usage up **162%** compared to previous year

- 44,000 registered users
- Since inception, eliminated the need to process 130,000 paper returns
- \$490 million in payments received
- 99% will use iFile for some or all future filings

iReg – Over **50%** of all new businesses now register online

- 33,000 new businesses registered online
- Eliminated need to process six-page registration forms
- 94% found iReg easy to use
- 97% would recommend iReg to other businesses

Secure Messaging – Over **14,000** secure messages received online

- 95% receive online reply within two days

Policy Library – Over **480,000** policy documents reviewed online

Teleplan – Usage up **39%** compared to previous year

- Over 17,000 self-service pay plans established
- Over \$20 million in payment plans established
- Default rate 34% lower than traditional payment plans
- Saved 3,400 man-hours

Telefile – Over **452,000** returns filed over the telephone

- Since inception, eliminated the need to process 452,000 paper returns
- Error rate 97% lower than paper returns

CHANNEL

The Partnership has effectively implemented a wide-range of new tools for handling the millions of paper returns, payments, and correspondence received and processed by TAX each year. New mail opening equipment allows TAX to open and extract the contents of incoming mail quickly. High-speed imaging technology allows TAX to convert paper returns to electronic images that can be processed without manual data entry and can be retrieved by anyone in the Department to assist a customer. Paper correspondence is quickly converted to an electronic image that can then be routed to any employee in the Department to prepare a response. New remittance processing equipment not only enables faster deposit of payments with less manual intervention, but also results in an electronic image of the check that can be retrieved by any TAX employee to assist a customer.

CUSTOMER RELATIONSHIP MANAGEMENT

The new Customer Relationship Management (CRM) tools have enabled TAX employees to provide excellent customer service. Every letter, fax, and Individual Income tax return is imaged upon receipt. Imaging enables Customer Service Representatives to operate in a near-paperless environment, in which everything needed to assist a customer is available electronically and instantly at

Channel Operational Metrics

Refunds – 93% issued in 12 days or less

- 99% of refunds from electronic returns issued in less than 12 days
- Refund interest reduced by 25% (\$1.8 million)

Electronic Filing – Usage up 80% over last two years

- Over 1.1 million filed electronically this year

Imaging – Returns imaged up 29% over previous year

- Over 5 million documents imaged to date
- Return information collected automatically using Optical Character Recognition/Intelligent Character Recognition and Two-dimensional Barcodes
- Total returns processed up 17% over last filing season
- Peak period staffing down 30%
- Warehouse space for paper returns reduced by 50%

Traditional Data Entry – Over 11 million returns keyed

Remittance Processing – Peak period deposit time reduced 38%

- 2.4 million checks processed for \$3 billion
- Manual keying in remittance reduced 20%
- Hardware throughput 100% faster

CRM Operational Metrics

Correspondence Backlog – Reduced 81%

- Backlog reduced from 55,000 to 4,500
- Correspondence now answered in average of less than one week
- As result of reduced backlogs, faster turnaround, and notice improvements, inbound contacts reduced by 10%
- Correspondence images available agency-wide

Secure Messages

- Individual secure messages up 57%
- Business secure messages up 213%

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their desktop. Instead of asking a taxpayer to wait patiently for weeks until a paper return can be retrieved from a warehouse, any TAX employee can now often answer the taxpayer's question immediately using an electronic image of the return or correspondence retrieved at their desktop.

For the first time, TAX has relevant, real-time information about why taxpayers contact us for assistance. Every phone call, letter, fax, and e-mail is categorized by subject at the time of receipt. Categorizing the contact according to the reason for the contact allows TAX to improve outbound notices to reduce taxpayer questions, to understand and anticipate the impact of planned compliance campaigns on incoming requests for service, and to allocate our staff in a manner that minimizes customer wait time and frustration.

COMPLIANCE

New collection and auditing tools have allowed the Department to generate new compliance revenue to fund all Partnership initiatives. New auditing tools improve audit selection, reducing the burden on compliant taxpayers. Collection tools have allowed TAX employees to focus limited resources where they will yield the most compliance revenue.

AMS

Compliance Operational Metrics

Compliance Revenue – Up 25% during Partnership

- \$159 million in new revenue generated, while staffing generally declined

Auditor Productivity - Up 10%

Field Offices – 8 of 9 Field offices closed

- Remote access to technology tools allowed TAX to home-base audit and collections staff

Automated Lien Processing

Collections System

- Over 650,000 collection letters issued
- Over 633,000 active collection cases managed
- 1.1 million collection case payments totaling over \$350 million received
- Monthly lien output up by 35%

Collections System for Court Debt

- Improved integration with Supreme Court's host system
- New court tracking and collections performance reporting capabilities

“Most importantly, operational metrics have proven that the initiatives implemented by the Partnership have allowed TAX to become more efficient, to provide a broader range of services to increasing numbers of customers, and created the TAX knowledge workers of the future.”

CONCLUSION

The Partnership Project has already rolled out tangible and valuable products and services that have benefited Virginia's citizens. In addition, a complex and highly visible Tax Amnesty program was added to the scope of the Partnership Project and was successfully executed. Many more benefits are yet to come. TAX will be implementing the main replacement for the Commonwealth's revenue system--an undertaking that is as complicated as it is important. This application ensures the continuation of the Commonwealth's revenue administration system through which over \$11 billion is collected annually.

The revenue stream that pays for the project will revert to the Commonwealth of Virginia Treasury and be available annually for general appropriation. The amount expected from this stream will be set out in the Governor's budget proposal to be released on December 17, 2003.

As was noted in the October 2001 Report, TAX will incur as much as \$11 million annually in additional operational costs going forward for maintaining the new systems. While operational efficiencies are achieved with the new technologies, the nature of our government service model requires that we not abandon other more costly services on which citizens have come to rely, such as paper return filing.

National Awards

2001 Federation of Tax Administrators (FTA) award for Management and Organizational Initiative in State Tax Administration

National Association of State Chief Information Officers (NASCIO) 2001 Recognition Award for Outstanding Achievement in the Field of Information Technology

Semifinalist - Innovations in Government Award from the John F. Kennedy School of Government at Harvard University

The Council of State Governments Eagle e-Government Award of Excellence, recognizing the VATAX Online as one of the best Executive Branch Web sites in all of state government across the nation

2002 Governor's Technology Award for Public-Private Partnerships

2003 Cost Effectiveness Through Government Award, sponsored by the National Electronic Commerce Coordinating Council

2003 4th place award from the Center for Digital Government in the category of Best Government Applications for State General Government

The relationship developed between TAX and AMS has actively allowed for and encouraged the invention of pioneering solutions to business problems in revenue administration. A number of innovative, strategic goals were established during the Blueprint phase of the project in 1999, as described earlier in this and earlier reports. As shown below, tremendous success has already been achieved in implementing these strategic goals, even though the project is a year away from completion.

- ✓ *Self-Service TAX*
- ✓ *Customer Relationship Management (CRM)*
- ✓ *Correspondence Management*
- ✓ *On-line Registration*
- ✓ *Knowledge Workers of the Future*
- ✓ *Automated Return Data Capture*
- ✓ *Compliance Operational Tools*
- ✓ *Mobile Office*
- ✓ *Policy Library*
- ✓ *Proactive Policy Development Process*
- ✓ *Distinct Dispute Resolution Process*

TAX continues to be proud to report on the tremendous success of the Partnership to date. The Partnership continues to be an example of the benefits that can be achieved by partnering government with the private sector to bring modern solutions to all citizens. The Partnership concept has been emulated by several other states and is nationally recognized as an innovative and award-winning model for technical implementation and procurement. Most importantly, operational metrics have proven that the initiatives implemented by the Partnership have allowed TAX to become more efficient, to provide a broader range of services to increasing numbers of customers, and to create the TAX knowledge workers of the future.